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Before the
Federal Communications Commission
Washington, D. C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Petition for Rulemaking to Amend Part 32 of the Commission's Rules, Uniform System of Accounts for Class A and Class B Telephone Companies to Increase the Dollar Limit for Expensing the Cost of Individual Items of Equipment	)	RM ______

PETITION FOR RULEMAKING
of the
UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA) respectfully requests that the Commission initiate a rulemaking proceeding to amend its existing rules by increasing the expense limit of certain individual items of equipment from $500 to $2000 and by permitting exchange carriers to amortize the previously capitalized undepreciated investment over a three-to-five year period beginning January 1, 1995 or, at the exchange carrier's option, January 1, 1994. USTA is the principal trade association of the exchange carrier industry. Its members provide over 98 percent of the exchange carrier-provided access lines in the U. S. USTA's member companies are subject to the specific rule discussed herein.

I. INTRODUCTION.

Section 32.2000(a)(4) of the Commission's Rules provides that for certain individual items of equipment "...costing $500 or less or having a life less than one year..."the applicable

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plant specific expense account is to be charged. By this Petition, USTA is recommending that the amount be increased to $2000. As USTA will explain below, the current limit has not been reviewed since 1987 and is no longer relevant in today's competitive environment. Thus, it no longer serves the public interest. Raising the expense limit to $2000 will bring the accounting practices of regulated companies closer to the practices of comparable, nonregulated companies and will better reflect the current environment.

Between 1974 and 1987 the Commission raised the expense limit several times. Each time the Commission concluded that the interests of both carriers and customers were best served with the adoption of an expense limit which better reflected the practices of comparable, nonregulated firms, eliminated recordkeeping costs, accommodated changes in economic circumstances and had a minimal impact on revenue requirements. For example, in the Order adopting the current $500 expense limit, the Commission stated:

> Taking the return element and the administrative burdens into consideration, this Commission recognized long ago that efficiencies can be achieved by expensing some low-value items in the period they are purchased, rather than capitalizing them, carrying them in the rate base with the attendant continuing property record requirements and allowing a rate of return in the investment.[1]

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[1]In the Matter of Amendment of Part 31, Uniform System of Accounts for Class A and Class B Telephone Companies as it Relates to the Treatment of Certain Individual Items of Furniture and Equipment Costing $500 or Less, Report and Order, CC Docket No. 87-135, released July 22, 1988, at ¶ 14. See also, In the Matter of Amendment of the Uniform System of Accounts to Increase the Dollar Limit for Expensing Minor Items, Report and Order, CC

A 1986 study conducted by Coopers & Lybrand and submitted by AT&T in a Petition filed that year showed that less than ten percent of the companies surveyed used an expense limit less than $500.[2] Given that the $500 expense limit in 1986 was at the low end of comparable, nonregulated firms, that many companies are no longer under rate of return regulation and that the limit has not been addressed in seven years, USTA believes that a rulemaking to re-examine the expense limit is appropriate at this time.

II. RAISING THE EXPENSE LIMIT WILL BENEFIT CARRIERS AND THEIR CUSTOMERS.

USTA is proposing that the Commission amend Section 32.2000(a)(4) of its Rules to require that items costing $2000 or less or having a life less than one year are to be charged to the applicable plant specific expense accounts. The new Rule would read as follows:

> (4) The cost of individual items if equipment...costing $2000 or less or having a life less than one year shall be charged to the applicable Plant Specific Operations Expense accounts...

As noted above, the current $500 expense limit is inappropriate given the current competitive environment. When the Commission adopted the current expense limit, the regulatory

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Docket No. 81-273, released October 16, 1981 at ¶ 11; and In the Matter of Amendment of Part 31 (Uniform System of Accounts for Class A and Class B Telephone Companies) to Increase the Monetary Limit Where Capitalization is Appropriate from $25 to $50, Report and Order, CC Docket No. 20110, released December 5, 1974.

[2]American Telephone and Telegraph Petition for Waiver of Sections 31.2-10(d), 31.221 and 31.262 of the Commission's Rules, filed October 20, 1986.

and competitive environments were far different than they are today. In its previous consideration of the limit, the Commission evaluated the impact on an exchange carrier's revenue requirement because all carriers were regulated under a rate of return methodology. However, with the adoption of alternative forms of regulation, including price caps, the relationship between expenses and rates charged to customers is fundamentally different. With the Commission's greater reliance on prices rather than costs under alternative forms of regulation, exchange carriers should be permitted an expense limit that reflects the current competitive environment.[3]

Raising the expense limit to $2000 will benefit both carriers and their customers. The administrative costs associated with tracking, retiring and processing low-cost, high volume items will be eliminated and exchange carriers will have greater flexibility to recover their expenses, consistent with the form of regulation applicable to them, as well as with Generally Accepted Accounting Principles.

An informal survey conducted in 1993 of 12 USTA member holding companies representing approximately 90 percent of the industry's 1992 total gross operating revenues estimates that if the expense limit were raised to $2000, approximately $160

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[3]In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, CC Docket No. 87-313, 5 FCC Rcd 6786 (1990) at ¶¶ 21-37. See also, Comments of Ameritech filed December 10, 1993 In the Matter of Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions Between Carriers and Their Nonregulated Affiliates at pp. 7-12.

million would shift annually from capital to expense. However, this annual expense increase will be offset by a progressive decrease in depreciation expense, since these items would no longer be capitalized or depreciated. At the end of the average life of the assets shifted, the expense increase will be fully offset by the depreciation decrease. Further, any amortization of the embedded net book value, estimated to be $870 million for the 12 surveyed holding companies, would merely reclassify depreciation expense to amortization during the amortization period. Given the changes in regulation and the increase in competition, it is appropriate that exchange carriers be permitted greater flexibility and the opportunity to be more efficient.

USTA is requesting a flexible 3 to 5 year amortization period so that carriers may amortize the embedded net book value over each individual company's remaining asset life for the accounts covered by this Petition. If carriers are permitted to amortize over their individual and unique remaining lives, the expense shift for the embedded portion of assets addressed in this Petition would be implemented on a revenue neutral basis.

Based on the foregoing, USTA urges the Commission to initiate a rulemaking proceeding as soon as possible to amend Part 32 to raise the expense limit to $2000.

Respectfully submitted,

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March 1, 1994